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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
Madison River Telephone Company, LLC	)	WC **02-371**
Tariff FCC No. 1, Transmittal No. 9	)	
	)	

REBUTTAL

Michael T. Skriven
Vice President – Revenues
Madison River Telephone Company

Dated: January 15,2003

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SUMMARY

There is no evidence to support the proposition that the instability and upheavals characteristic of the long distance industry during the past two years have abated and that the industry has returned -- or soon will return -- to good health. In fact, there is mounting evidence that the industry remains deeply immersed in serious financial straits and that future near-term developments only will add to, not ameliorate, its problems.

Based on its assessment of current events and projected future developments, Madison River Telephone Company, on behalf of two of its operating subsidiaries, submitted a "mid-course tariff correction" to remedy the fact that it had not included in its 2002/2003 access rates any factor to accommodate uncollectibles expense. The bankruptcies *of* Global Crossing and WorldCom lefl Madison River with uncollectibles it will never recover, but they made clear the wisdom of revising prospective rates to include an element for uncollectibles. Indeed, the proposed rate changes, if permitted, are expected to allow the MRTC companies to earn their authorized rates of return. Without the adjustments, the Companies will fall short of that objective.

In its original tariff submission, its Direct Case and this Rebuttal, Madison River has justified the proposed access rate increases in all respects despite oppositions from ATBT and Sprint, both of which would **be** subject to the increased access charges and whose current operations amply demonstrate the ill-health upon which the increases are premised. Both contend they have been

paying their access bills fully and on time, which is admirable, but it is concerns about their future that has led to the proposed tariff adjustments.

AT&T and Sprint argue that the Commission's recent "Policy Statement" responsive to Verizon's (and others') attempts to take greater steps to protect themselves against customer non-payments is dispositive of this proceeding. That is not the case, however. A "policy statement that applies only to payment security ***regulations*** cannot serve as the basis to deny tariff proposals involving filed (and supported) rates.

There is such an abundance of evidence that the long distance industry is high-risk (and will remain so throughout the current tariff period) that the approach implemented by Madison River to protect itself is fully justified. To ignore or minimize this evidence would be derelict on its part and contrary to the interests of its other customers.

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In the Matter of	)	
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Madison River Telephone Company, LLC Tariff FCC No. 1, Transmittal No. 9	)	WC 02-371
	)	

REBUTTAL

Madison River Telephone Company ("MRTC" or "Madison River") hereby submits its Rebuttal in response to the "AT&T Corp. Opposition to Direct Case" ("AT&T Opposition") filed by AT&T Corp. ("AT&T") and the "Opposition to Direct Case" ("Sprint Opposition") filed by Sprint Corporation ("Sprint").[1] For the reasons set forth in MRTC's Direct Case and below, the oppositions are without merit and the proposed rate adjustments should be allowed to take effect.

I. INTRODUCTION.

MRTC projects that its uncollectible expense will increase during the remainder of the tariff rate period and that, without the proposed rate adjustments, two of its subsidiaries operating under MRTC Tariff FCC No. 1 will not earn their authorized rates of return with respect to their furnishing of

[1] MKTC filed its "Direct Case" herein on December 18, 2002

interstate access services.'

On September 24, 2002, MRTC filed rate increases designed to recover the expense associated with uncollectible reserves set up to accommodate projected uncollectible access revenues. These revisions were challenged by AT&T, ultimately suspended by the Commission on October 8, 2002, and, thereafter, set for investigation.[3]

The proposed rate increases involve the introduction of an uncollectible expense factor into the data used for the annual 2002 tariff filing. The result of including the uncollectible expense factor is that MRTC can reasonably expect its earnings during the tariff period to be less than its authorized rate of return and, therefore, MRTC filed a mid-course tariff correction. The results of this undertaking show that, without additional revenues to compensate for the allowance for uncollectibles, Gallatin River will earn only 10.11% on its interstate Switched Access Services and 10.49% on its interstate Special Access services and that Gulftel, without the rate adjustments, will earn only 9.06% on its interstate Switched Access Services and 10.75% on its interstate Special Access Services. With the implementation of the requested rate increases MRTC expects to earn its authorized rate of return. Accordingly, the proposed increases are fully justified.

[2] The two subsidiaries are Gulf Telephone Company ("Gulftel") and Gallatin River Communications, LLC ("Gallatin River"), sometimes referred to collectively as "MRTC," "MRTC Companies" or "the Companies")

' Madison River Telephone Company, LLC, Tariff FCC No. 1, Transmittal No. 9, WC Docket No. 02-371, DA 02-3284 (released November 25, 2002) (*Designation Order)*

AT&T and Sprint raise a number of issues, most of which are irrelevant and immaterial. They obviously oppose the prospect of paying more for access services, which is understandable; but, *to* support their positions, they ignore telecom industry realities, including their own travails. To contend as they do that the turmoil that has taken place in the telecommunications industry is normal or "temporary," or that the industry has recovered, is, at best, wishful thinking.[4]

The telecommunications industry has changed dramatically, whether as a result of an "industry downturn," corporate misfeasance, or a combination of the two. It really doesn't matter so much *why* the industry is different today so long as there is recognition of the fact it is. The simple facts today are that suppliers of essential services, like the Companies, stand a much greater risk of not being paid for their services and thus far have been largely rebuffed by the Commission in their efforts to create commercially reasonable approaches to protect themselves against nonpayment, *e.g.,* the implementation of revised deposit requirements in appropriate circumstances.

When the telecom industry was healthy, slow-paying or, certainly, non-paying customers were rare, as witnessed by the fact that the Companies previously did not need to include a cost element for uncollectibles in their rates, nor did they even need to require and hold deposits from customers. Indeed,

[4] *See* "Financial Turmoil in the Telecommunications Marketplace: Maintaining the Operations of Essential Conimunications." Written Statement of the Honorable Michael K. Powell, Chairman, Federal Communications Commission, before the Committee of Commerce, Science and Transportation, United Slates Congress, July 30, 2002. The fact that the Commission recently saw fit to issue a policy statement in which it discussed the financial hurt affecting the telecom industry is additional evidence of the uncertainties that surround the industry. ***See*** In the Matter of Verizon Petition for Emergency Declaratory and Other Relief, FCC 02-337, rel. December 23, 2002. (Hereinafter, "*Policy Statement*.")

current, long-standing tariff payment regulations were considered adequate.[5] Unfortunately, even good-payers, like WorldCom had been, became non-payers during the period immediately preceding bankruptcy. Significantly, this was an instance in which any required deposit for a history of late payments would have been unavailing because WorldCom filed for bankruptcy before the application of the tariff rules would have resulted in any deposit being made.[6]

Although these proposed rate adjustments are predicated on the future, it would be foolhardy to ignore the teachings resulting from the dramatic impact that recent bankruptcies have had upon the telecommunications and related industries. And, to suggest, as AT&T and Sprint do, that the worst is somehow over belies the fact that the industry participants -- including those opposing MRTC — continue to suffer significantly.[7]

It is against this backdrop that the Commission will be deciding whether access providers can implement measured tariff protections -- including justified

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[5] AT&T falsely claims that current tariff provisions pertaining to security deposits and service discontinuance were "prescribed" by the Commission. (AT&T Opposition at 13) A review of the decision that led to the current tariff language, however, reveals that no prescription exists. such that exchange access providers are not under any prior constraint to propose tariff modifications pertaining either to rates or to payment security regulations. In fact, the Commission could have prescribed the tariff regulation language currently in widespread use, but it chose not to do so. See Investigation of Access and Divestiture-Related Tariffs, **97** FCC2d 1082, **1145 (1984).** Instead of prescribing tariff language, the Commission merely directed "clarification and justification" of the then-proposed tariff deposit provisions, indicating that a tariff proposal viewed as deficient could be dealt with "from a number of options to remedy the defects" including either prescription, a "directive" to carriers to correct the unlawfulness – which it did then, or take such other action as deemed to be necessary under Section 4 **(i)** of the Communications Act. Id., at 1110. **As** explained hereinafter, that current tariff language is no more a "prescription" than are Commission pronouncements made recently in the *Policy Statement* upon with the *opposing* parties so heavily rely.

[6] It is worth noting that, although the MRTC Companies requested deposits from WorldCom on the earliest day allowed under their tariffs, WorldCom filed for bankruptcy before the requested deposits were due to be paid. Furthermore, deposits have not been allowed by the Bankruptcy Court with regard to post-petition business.

[7] As **NECA** recently noted in its Direct Case in WC Docket No. 02-340 at 6, ". . . there are several other companies still teetering on the brink *of* bankruptcy." As shown *infra*, AT&T and Sprint are among them.

rate increases -- to avoid having to raise rates for their non-access services or cut service-related costs in a way that could degrade service. If the Companies are denied here the ability to obtain additional revenues to cover uncollectibles, the risks associated with non-payment effectively will be shifted over to two of the smaller access service providers dependent on access revenues and, ultimately, to their other customers.'

II. RELIANCE ON THE "POLICY STATEMENT IS MISPLACED.

Both AT&T and Sprint rely on the intervening Commission's Policy Statement to attack the proposed rate increases. For a number of reasons, such reliance is misplaced. First and foremost, the Policy Statement deals with tariff regulations pertaining to service payment provisions, not to rate adjustments designed to increase revenues to recover uncollectibles.[9] This is clear in the introduction to the Policy Statement where the Commission states it is providing "general guidance to incumbent local exchange carriers (LECs) seeking to revise the deposit and payment provisions *of* their interstate access *tariffs*,"[10] and it becomes even clearer when the Commission indicates the approaches it would

[8] Nonpayment impacts small carriers more than larger carriers because, as to them, exchange access revenues represent a larger percentage of their overall revenues. For the Second Quarter, 2002, Verizon, which had revenues of $16.8 billion, wrote off5183 million, or approximately one percent of its revenues, due to WorldCom's bankruptcy. A similar calculation shows that WorldCom pre-petition unpaid billings amounted lo 2.2% and 5.1%, respectively, of Gallatin River's and Gulftel's second quarter revenues.

[9] Sprint relies on pure Commission speculation in the Policy Statement ("that the risk to incumbent LECs of nonpayment and further bankruplcies may be smaller than many incumbent LECs assumed ...") to conclude that the Companies have "failed to demonstrate the reasonableness of [their] projected uncollectible amount." (Sprint Opposition at 3.) Such is a quantum leap that requires much greater explanation than is provided.

[10] Policy Statement at I. (Emphasis supplied.) The Madison River tariff proposal at issue herein is mentioned only in passing in the Policy statement (at 3) and, most certainly, no Commission determination therein could he said to apply in this proceeding, which is quite different and, as yet, uncompleted.

find appropriate for modification of payment-related regulations, if LECs choose to implement them." Thus, the intervening" Policy Statement has no application within the context of this proceeding, which pertains to proposed rate increases and not proposed changes in tariff regulations.

III. THE INTEREXCHANGE INDUSTRY IS NOT "HEALTHY.

AT&T and Sprint protests to the contrary notwithstanding, none of the remaining interexchange carriers represents, or projects, a picture of financial health at this time. Accordingly, it's more likely than not that additional crises will arise in the future, perhaps even in the near-term. And, certainly, one lesson learned from the recent bankruptcies is that a bankruptcy can occur suddenly and without warning, leaving suppliers of essential services standing in line to try to collect what is owed them.[13]

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[11] *Id.,* at 4-5 and 13. The FCC suggests – it does not prescribe – that LECs:

- Revise their interstate access tariffs to define the "proven history of late payment" trigger for requiring a deposit to include a failure to pay the undisputed amount of a monthly bill in any two of the most recent twelve months, provided that both the past due period and the amount of the delinquent payment are more than *de minimis;*

- Reduce the notice period for refusal or discontinuance of service from 30 days to some shorter period for customers that receive bills quickly enough to allow review and dispute;

- Accelerate billing cycles from 30 days to some shorter period to reduce exposure to pre-bankruptcy petition debt and other possible nonpayment; and

- Bill in advance for usage-based services currently billed in arrears, based on average usage over a sample period, perhaps phasing in the first advance bill over a period of several months. (Footnotes omitted.)

[12] The Policy Statement issued five days after MRTC filed its Direct Case herein.

[13] *See* Direct Case at 8-9. **As** noted, WorldCom representatives were stating -- until the last business day

The Companies submit that an assessment of the projected health of the interexchange industry can be achieved by reviewing public information revealed or known about the industry players. The Companies believe that this information refutes any belief that the current level of increased uncollectibles results from normal fluctuations associated with economic downturns or the "one-time rash" of carrier bankruptcies that have taken place during the past two years.[14] AT&T even asserts there is *"no* evidence" that the access business has become more risky, claiming "the reality is quite different."[15] It later suggests that the events of the past, meaning the Global Crossing and WorldCom bankruptcies, were "aberrations that are unlikely to be repeated,"[16] and it repeats its argument that "remaining ***viable*** carriers" are being asked to pay higher rates, indicating that it would be unfair for these to have to pay more because of the past acts or future failings of others.[17] Finally, Sprint expresses indignation with regard to the suggestion that it poses a default risk by asserting "there is absolutely no danger that it will not pay its bills.[18]

Reality seems to be lost at AT&T and Sprint. On January 7, 2003, AT&T announced it is slashing 3,500 jobs in its business services division – long recognized as its most profitable business – and taking a $1.5 billion charge

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before bankruptcy was declared on July 21, 2002 -- that WorldCom was financially sound and would not be tiling for bankruptcy.

[14] Sprint Opposition at 3-4; AT&T Opposition at 2, 4-5.

[15] AT&T Opposition at 4. (Emphasis in original).

[16] Id. at 7.

[17] *Id.*

[18] Sprint Opposition at 4.

against fourth quarter, 2002, operations.[19] This follows other AT&T workforce reductions in the recent past that are too numerous to mention. And, according to Standard & Poors, its rating on AT&T "reflects the high business risk profile of the long distance industry."[20] In addition, AT&T recently executed a one-for-five reverse stock split in an attempt to drive up the price of its flagging stock. On December 11, 2002, Sprint "announced another round of layoffs that will eliminate an additional 2,200 jobs"[21] and, on January 2, 2003, it was reported that Verizon had supplanted Sprint, long the third largest long distance service provider.[22]

It's also been reported that Qwest vendors, fearful of Qwest's precarious operating condition, have demanded advance payments, deposits, and other means of payment assurances and that Qwest, out of necessity, has taken steps to try to reduce its debt load to within acceptable limits. The latter undertaking was met with "a lukewarm assessment" by credit analysts who recognized that Qwest "has been trying to avoid bankruptcy, has suffered from stiff competition, a glut of network capacity and weak demand."[23]

These simply are not actions or reactions normally taken by "healthy" companies; rather, they are undertakings indicative of companies in financial

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[19] Associated Press, "AT&T to Eliminate 3,500 Jobs in Business Services Division, Take $1.5 Billion in Charges," January 7, 2003

[20] Reuters, "S&P Comments on AT&T Corp," January 7,2003,

[21] Dow **Jones** Business News, "Sprint To Cut 1,000 Jobs," December 11, 2002. (Emphasis supplied.)

[22] Dow Jones Business News, "Verizon Becomes 3rd-Largest Long –Distance Co – Surveys," January 7, 2003.

[23] Reuters, "Credit Analysts Lukewarm on Quest Debt Swap," December 26, 2003. It was reported that the debt reduction "did *not* eliminate concern about the company's ability to pay its debts" and that Qwest "still faces U.S. Securities and Exchange Commission and Department of Justice probes into its accounting, as well as potential shareholder suits,"

trouble. For example, significant workforce reductions normally do not occur in healthy companies except, perhaps, when they are undertaken as a result of a merger or acquisition in order to address staffing overlaps or redundancies. It simply takes too long for a company to acquire and train staff and, then, cut employees loose in an attempt to lower costs and boost operating margins.

It is interesting to note AT&T's stated belief that "the downfall of MCI WorldCom and others should strengthen the remaining viable carriers who will inherit additional customers."[24] Such speculation does not seem to be shared among other industry observers.[25] Indeed, there are reports that WorldCom's customers, particularly its largest ones, have not defected. And, if WorldCom does emerge from bankruptcy debt-free and desirous of retaining or growing its market share, that likelihood alone would justify the proposed increases herein because then *all* the players in the interexchange industry will be operating at substantial risk.[26]

Two other related factors are highly relevant in adjudging the state of health in the interexchage industry. First, it likely will be a scant few months – and well within the current Tariff Period -- before all the Regional Bell Operating Companies – SBC Corporation, Verizon, BellSouth and Qwest – receive the approvals they need to enter into the long distance business on a nationwide

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[24] AT&T Opposition at 7

[25] Business Week, "Bankruptcy Might Whip WorldCom into Shape," August 5, 2002. "If WorldCom retains its customer base and manages to emerge from bankruptcy intact, its prospects are excellent, say analysts." The article further indicates that "the company looks likely to emerge from bankruptcy stronger than ever . . . [which] . . . very idea is giving WorldCom rivals palpitations."

[26] WorldCom itself has issued a statement titled "Why WorldCom Will Survive" in which it cites favorably the proposition that, as a debt-free player. it will figure prominently in the marketplace.

basis. When this occurs, there no longer will be any regulatory constraints on where these carriers can provide long distance services within the United States. It would be naïve to ignore their likely impact on the current industry players because they have consistently demonstrated a capability to garner between 20 and 30 percent of the long distance business in states in which they are the incumbent local exchange service providers.

Coupled with this imminent development is the fact that the Commission may be planning to stop requiring incumbent local phone companies to provide UNE-Ps, or network parts, to competitors like AT&T and WorldCom at current rates so the latter can furnish their local exchange services. If the Commission restricts the availability of UNE-Ps as currently provided, the financial condition of both AT&T and WorldCom likely will worsen substantially because they may be unable to compete effectively in local markets." That AT&T would be impacted significantly seems beyond dispute, given the reactive statement of its vice president of federal government affairs: "Without the wholesale rates, this is an unsustainable business."[28] And, it is widely recognized, WorldCom is focused heavily on a product called "the neighborhood" which consists of bundled local and long distance service.

[27] Forbes.com Video Network, *"FCC* may Alter Local Phone Service," January 6,2003. The article states this "[t]he move would be the most significant change in FCC rules since the 1996 Telecommunications **Act,** which opened competition between the Bells and long-distance carriers." ***See.*** also, Wall Street Journal. January 6, 2003, at I, "FCC Plans to Erase a Key Rule Aiding Local Phone Competition," wherein it is stated that the FCC's plan "territies the long distance carriers, who are counting on their ability to profit from local services to survive the *continuing* telecom meltdown." (Emphasis added.)

[28] Wall Street Journal, January 6, 2003, ***ai*** 1

Thus, there simply is no evidence to support the proposition that the instability and upheavals characteristic of the long distance industry during the past two years are over and that there likely will be any return to normalcy, In fact, all the ongoing evidence and disclosures suggest that the industry remains in a state of financial crisis and that imminent developments will add to, not ameliorate, the problem. In this regard, Sprint's claim that "there should be no further uncollectible exposure from [Global Crossing and WorldCom]"[29] is highly suspect, to say the least. It can only be concluded that, if WorldCom, the second largest long distance carrier, survives bankruptcy, the positions of its long distance competitors will be weakened, thus threatening payments to MRTC, and that, if WorldCom does not survive bankruptcy, then MRTC will suffer yet another bankruptcy-related uncollectible.[30]

MRTC hastens to emphasize that it does not wish any long distance player ill; indeed, it wishes all of them well, if only so they can pay MRTC fully and on a timely basis for the access services furnished them.

AT&T suggests that MRTC should be charging two levels of access rates, one for "viable" customers like itself, allegedly, and another, presumably with higher rates, for others.[31] It never offers how distinctions would be made here

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[29] Sprint Opposition at 4.

[30] Just yesterday, it was reported that telecom analysts questioned WorldCom's business prospects going forward in the face of of intense competition posed by wireless substitution and RBOC long distance entry. The analysts reportedly stated that "[t]hese industry trends imply that if WorldCom does reemerge from bankruptcy, the long-lerm outlook still remains challenging." "WorldCom to File Reorganization Plan by April *15;* New Sales Targets are Set," Telecom Reports, January 14, 2003.

[31] AT&T Opposition at 4. "([MRTC's] tariff revisions at issue here are not directed at bankrupts or even at deadbeats, but ar *all* ratepaying access customers, even those with impeccable credit." (Emphasis in original) Of course, the problem, as clearly shown on the record, is that customers with "impeccable

(other than to self-classify itself as "viable"), nor does it offer any advice on whether a two-tier access charge system for customers would pass regulatory muster under Sections 202 (a) and 201 **(b)** of the Communications Act or even, if MRTC chose to tariff such a dichotomy, whether AT&T would support or attack it.

In this regard, AT&T subsequently claims that the 1984 tariff security regulations "offer more than sufficient protection against non-payment risks, and no further relief is necessary." [32] The fact is, they don't offer protection to access providers attempting to deal with near-term uncertainties in the unhealthy long-distance market, and recent attempts to revise those regulations by several access providers essentially were rejected by the Commission in its *Policy Statement.* AT&T itself was a prominent opponent challenging changes proposed to be made to the outdated tariff, even though it includes in its own tariffs and contracts payment provisions that could be challenged using the same arguments employed by AT&T against access service providers. In any event, the issue to be decided here really has nothing to do with the current stale tariff security regulations

It is also interesting to note that, although AT&T seems to embrace the *Policy Statement,* it sees fit here to challenge any potential use of the "advance billing" option offered by the Commission, if that approach were to involve all carriers.[33] This is further evidence of the fact that AT&T simply "doesn't get it,"

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credit" today could very **well** become "deadbeats" tomorrow – a status MRTC has shown is more than likely, given the unhealthy state of the long-distance industry

[32] AT&T Opposition at 13.

[33] AT&T Opposirion at n. 12.

meaning that the risk of non-payment as heightened by recent industry developments involves all the players in the long distance industry, irrespective of past payment histories. It truly would be acceptable if bad debt costs were recoverable from defaulting carriers but, unfortunately, such recoveries are impossible when a carrier simply lacks the wherewithal to pay its debt or is protected from its payment obligation by virtue of its status as a bankrupt.[34]

IV. MRTC'S APPROACH IS IN REASONABLE IN ALL RESPECTS.

MRTC filed its 2002 annual tariff to be effective July 2, 2002. This filing sought to establish prospective rates for the tariff period July 2, 2002 through June 30, 2003, in conformance with rate-of-return requirements and in compliance with Section 61.38 and other relevant sections of the FCC rules. The rates that were filed in the 2002 annual filing resulted in significant reductions in Traffic Sensitive Access rates for both Gallatin River and Gulftel. On an overall basis, the 2002 annual filing reduced Traffic Sensitive access rates by 11.21% for Gallatin River Communications and by 8.20% for Gulftel.

Following WorldCom's bankruptcy, MRTC realized the need to establish Uncollectible Reserves for Network Access Revenues. Based on internal analyses and modeling, MRTC designated an Uncollectible Reserve level that, in its considered opinion, properly recognized the risk associated with potential uncollectible revenues from access customers. That MRTC has the right to

[34] It should be recognized that entities confronted with the prospect of bankruptcy evaluate their creditors in order to develop a strategy as to which of them should be paid in whole or in part and which should not be paid for their pre-petition debt. The usual result of such an evaluation is that access service providers are placed at the bottom of the "payment priority list" because of their legal duty to serve and, also, because they are strapped with out-of-date tariff or contractual mechanisms to protect them.

establish such a reserve is beyond any question and that it may employ a methodology based on its management expertise and experience also is beyond any question. MRTC described that methodology in connection with its tariff filing and believes it is not required to obtain pre- or post-approval from its affected customers to establish such a reserve – so long as its approach is in accordance with generally accepted accounting principles.

AT&T argues that MRTC management estimates should be rejected because "MRTC itself concedes" that assumptions "were made on the basis of imperfect information."[35] MRTC submits that it is unreasonable to expect that it has perfect information regarding which carriers will default and file for bankruptcy during the remainder of the tariff period, in order to justify the establishment of a an allowance now for uncollectibles. MRTC doesn't have a "crystal ball" to predict with absolute precision; however, as this Rebuttal amply shows, there is an abundance of evidence disclosing that the near-term prospects for the long distance industry are not good.

Having established the need and target level for a reserve, MRTC established a reasonable timeline to build the reserve. Accounting for this reserve, which was fully described in the original tariff filing and is appended hereto, establishes monthly uncollectible expense amounts that accrue until the target is reached. During the course of carrying out this exercise, it became clear that MRTC could not achieve its authorized rate-of-return during the tariff period

[35] AT&T Opposition at 8

and, therefore, it elected to make a mid-course correction by increasing its access rates in accord with FCC rules.

The only remaining question to be decided is whether the proposed rate increases will allow MRTC to achieve its authorized interstate rate of return and, therefore, whether those increases are reasonable. Other issues raised by Sprint and ATBT, as noted above, are irrelevant or immaterial. For example, earnings in prior periods are not relevant. If they were, however, it must be taken into account that MRTC filed rate reductions of 11.21% for Gallatin River and 8.2% for Gulf Telephone Company, effective July *2,* 2002, in order to accommodate rate-of-return requirements during the current tariff period

Sprint suggests that the only basis for an access charge increase "should be a permanent increase in the interstate revenue requirement."[36] However, this statement has no basis in FCC rules, which require rates to be set based on reasonable projections of costs and demand during the prospective period.[37] In fact, some costs increase and other costs decrease from year to year in any company.

ATBT would have the Commission believe that establishing an uncollectible reserve is a "new" system.[38] On the contrary, MRTC Companies have used uncollectible reserves for many years in association with end-user revenues. It has only been in recent months that it has become necessary to implement *a* similar, but not "new," process for access revenues.

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[36] Sprint Opposition at Page 2.

[17] *See* Section 61.38 of the FCC rules and the FCC Tariff **Review** Plans Order.

[38] AT&T Opposition at 10.

V. CONCLUSION.

For all the reasons set forth in MRTC's Direct Case and in this Rebuttal, the proposed rate increases should be permitted to take effect.

Respectfully submitted,

Michael T. Skrivan (by E. Rhodes)

Michael T. Skrivan

Vice President- Revenues

Madison River Telephone Company

Dated: January 15,2003

Gallatin River Communications, LLC
Carrier Bad Debt Reserve

	Average Monthly Billing		Average Daily Billing		Days at Risk		Dollars at Risk			Risk	Weighted
Carrier	Switched	Facilities	Switched	Facilities	Sw.	Fac.	Switched	Facilities	Total	Level	Risk $s
100	$ 147,768.15	$ 79,432.89	$ 4,925.61	$ 2,647.76	105	85	$ 517,188.53	$ 225,059.86	$ 742,248.38	15.0%	$ 111,337.26
101	$ 325,741.71	$ 105,442.08	$ 10,858.06	$ 3,514.74	105	85	$ 1,140,095.99	$ 298,752.56	$ 1,438,848.55	1.0%	$ 14,388.49
102	$ 108,587.05	$ 86,745.53	$ 3,619.57	$ 2,891.52	105	85	$ 380,054.68	$ 245,779.00	$ 625,833.68	1.0%	$ 6,258.34
103	$ 47,019.13	$ 23,697.13	$ 1,567.30	$ 789.90	105	85	$ 164,566.96	$ 67,141.87	$ 231,708.82	15.0%	$ 34,756.32
104	$ 92,913.23	$ 15,389.81	$ 3,097.11	$ 512.99	105	85	$ 325,196.31	$ 43,604.46	$ 368,800.77	7.0%	$ 25,816.05
105	$ 50,256.55	$ 27,976.94	$ 1,675.22	$ 932.56	105	85	$ 175,897.93	$ 79,268.00	$ 255,165.92	15.0%	$ 38,274.89
106	$ 84,950.32	$ 9,790.28	$ 2,831.68	$ 326.34	105	85	$ 297,326.12	$ 27,739.13	$ 325,065.25	1.0%	$ 3,250.65
Others	$ 168,142.21	$ 102,556.25	$ 5,604.74	$ 3,418.54	105	85	$ 588,497.74	$ 290,576.04	$ 879,073.78	1.0%	$ 8,790.74
Total	$ 1,025,378.35	$451,030.91	$34,179.28	$ 15,034.36	105	85	$ 3,588,824.23	$ 1,277,920.91	$ 4,866,745.14	5.0%	$ 242,872.73

Currently Known Bankruptcies		$ 657,361.81
Estimated Recoveries	15.5%	$ (139,536.35)
Target Reserve		$ 760,698.19
Current Reserve		$ 188,500.00
Excess or (Deficit) Reserve		$ (572,198.19)
# Months		16
Monthly Accrual		$ (36,000.00)

Jurisdictional and Billing Element Breakdown:

Annual Accrual		$ (432,000.00)
Intrastate:		
47.35%	Switched Access	$ (204,559.89)
4.41%	Special Access	$ (19,052.97)
2.30%	Direct Trunk Transport	$ (9,943.49)
Interstate:		
0.00%	Carrier Common Line	$
17.62%	Local Switching	$ (76,108.83)
1.91%	Common Transport	$ (8,262.69)
22.93%	Special Access	$ (99,042.61)
3.48%	Direct Trunk Transport	$ (15,029.51)
Total		$ (431,999.99)

Gulf Telephone Company
Carrier Bad Debt Reserve

Carrier	Average Monthly Billing Switched	Average Monthly Billing Facilities	Average Daily Billing Switched	Average Daily Billing Facilities	Days at Risk Sw.	Days at Risk Fac.	Dollars at Risk Switched	Dollars at Risk Facilities	Dollars at Risk Total	Risk Level	Weighted Risk $s
100	$ 330,418.26	$ 42,109.30	$ 11,013.94	$ 1,403.64	105	85	$ 1,156,463.91	$ 119,309.68	$ 1,275,773.59	1.0%	$ 12,757.74
101	$ 99,027.27	$ 13,840.90	$ 3,300.91	$ 461.36	105	85	$ 346,595.45	$ 39,215.88	$ 385,811.33	1.0%	$ 3,858.11
102	$ 88,952.42	$ 17,477.77	$ 2,965.08	$ 582.59	105	85	$ 311,333.47	$ 49,520.35	$ 360,853.82	15.0%	$ 54,128.07
103	$ 55,201.24	$ 11,075.86	$ 1,840.04	$ 369.20	105	85	$ 193,204.34	$ 31,381.60	$ 224,585.94	15.0%	$ 33,687.89
104	$ 107,771.52	$ 7,472.41	$ 3,592.38	$ 249.08	105	85	$ 377,200.32	$ 21,171.83	$ 398,372.15	1.0%	$ 3,983.72
105	$ 112,932.24	$ 6,474.96	$ 3,764.41	$ 215.83	105	85	$ 395,262.84	$ 18,345.72	$ 413,608.56	15.0%	$ 62,041.28
106	$ 43,929.28	$ 3,906.40	$ 1,464.31	$ 130.21	105	85	$ 153,752.48	$ 11,068.13	$ 164,820.61	5.0%	$ 8,241.03
Others	$ 97,814.64	$ 73,627.28	$ 3,260.49	$ 2,454.24	105	85	$ 342,351.24	$ 208,610.63	$ 550,961.87	1.0%	$ 5,509.62
Total	$ 936,046.87	$ 175,984.88	$ 31,201.56	$ 5,866.16	105	85	$ 3,276,164.05	$ 498,623.83	$ 3,774,787.87	4.9%	$ 184,207.47

Currently Known Bankruptcies		$ 415,757.00
Estimated Recoveries	15.5%	$ (92,994.49)
Target Reserve		$ 506,969.98
Current Reserve		$ 112,000.00
Excess or (Deficit) Reserve		$ (394,969.98)
# Months		16
Monthly Accrual		$ (25,000.00)

Jurisdictional and Billing Element Breakdown:

Annual Accrual		$ (300,000.00)
Intrastate:		
24.62%	Switched Access	$ (73,862.60)
0.08%	Special Access	$ (245.98)
0.28%	Direct Trunk Transport	$ (830.44)
Interstate:		
0.00%	Carrier Common Line	$
26.56%	Local Switching	$ (79,689.97)
33.43%	Common Transport	$ (100,284.25)
13.66%	Special Access	$ (40,990.08)
1.37%	Direct Trunk Transport	$ (4,096.68)
100.00%		
Total		$ (300,000.00)

CERTIFICATE OF SERVICE

I, Naomi Adarns, hereby certify that copies of the foregoing "Rebuttal" were mailed, unless otherwise noted, first-class, postage prepaid, on January 15, 2003, to:

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